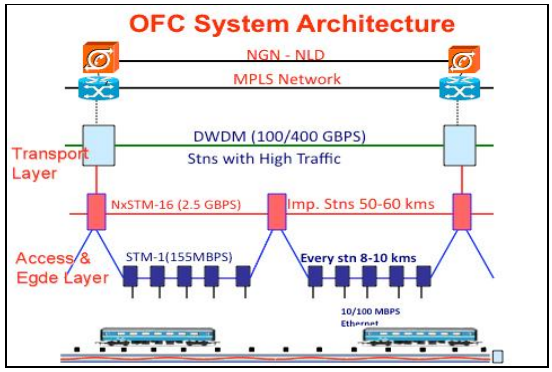
Chapter 7 –Public Sector Units of Indian Railways

The Ministry of Railways had set up 12 PSUs with a total investment of Rs.7559 crore as on 31 March 2010 with varied and specific objectives of raising finance for its rolling stock, manufacture of wagons and locos, developing specialization in construction projects, developing containerization of rail traffic and rail infrastructure

This Chapter takes a look at the functioning of the working arrangements as per the Memorandum of Understandings signed between the Ministry of Railways and the two PSUs namely RailTel Corporation of India Limited (RCIL) and Rail Vikas Nigam Limited (RVNL) involving inter-alia, transfer of assets, revenue sharing and resource mobilisation.

7.1 Agreement of Indian Railways with RailTel Corporation of India Limited



Executive summary

- *The Railways formed RailTel Corporation of India Limited (RCIL) in September 2000 as a Public Sector Undertaking (PSU) under the Companies Act 1956. The objective was to build a nation-wide telecom and multimedia network on the already laid OFC network of the Railways and to provide a modern communication system to improve Railway's Train Control, Operation and Safety Systems. This would also bring in additional revenue by marketing surplus communication network capacity. The Ministry of Railways entered into a Memorandum of Understanding (MOU) with RCIL detailing the working arrangements between the Railways and RCIL, assets to be transferred to RCIL by Railways, facilities to be provided by Railways for the functioning of RCIL on Railways, the services to be provided by RCIL to the Railways etc.*
- *The arrangements of the Indian Railways with RCIL regarding transfer of assets and payments of revenue sharing by RCIL were reviewed in audit.*
- *Audit highlighted the following:-*
- *The lack of system to verify the revenue share received by the Railways, inadequate record keeping and lack of proper coordination led to short receipt of ₹28.88 crore towards the revenue share receivable from RCIL.*
- *Clear demarcation of assets and proper licensing agreement were not made before licensing the assets to RCIL. Railways were neither able to assess the dues recoverable from RCIL nor resolve disputes on land licensed to it. Even in the known cases of licensing an amount of ₹10.23 crore is outstanding for the period upto 2009-10. In the absence of proper*

records of assets licensed, Audit could not assess the actual dues recoverable from RCIL.

- *Railways could not transfer data circuits to their own OFC network and had to pay an amount of Rs 11.09 crore in 12 zones on hired BSNL circuits.*

Gist of recommendations

- *The Railways need to strictly observe the provisions in the agreement and update their records to ensure that revenue share is received correctly.*
- *The Railways need to keep proper records of assets licensed to RCIL. Agreements indicating the license fee payable by RCIL should also be entered into in all cases of licensing.*
- *The Railways need to maintain proper records of assets licensed to RCIL. All licensing requirements should clearly stipulate licence fee payable, for the specific use and the area of land demarcation for the purpose.*

7.1.1 Introduction

7.1.1.1 RailTel Corporation of India Limited

The Railways formed RailTel Corporation of India Limited (RCIL) in September 2000 as a Public Sector Undertaking (PSU) under the Companies Act 1956 with an authorized capital of ₹1000 crore and a paid up share capital of ₹320.94 crore as on March 2009. The entire paid up share capital was contributed by the Railways. RCIL paid interim dividend of ₹5 crore, ₹8 crore and ₹15 crore for the years 2007-08, 2008-09 and 2009-10 respectively to the Railways.

7.1.1.2 Objective of RCIL

- To build a nation-wide telecom and multimedia network on the already laid OFC network of the Railways
- To extend laying of OFC along the Railway track utilizing the Railways' Right of Way (ROW)
- To provide a modern communication system to improve Railway's Train Control, Operation and Safety Systems
- To bring in additional revenue by marketing surplus communication network capacity

7.1.1.3 Memorandum of Understanding

The Ministry of Railways entered into a Memorandum of Understanding (MOU) with RCIL on December 07, 2001 detailing the terms and conditions of the working arrangements between the Railways and RCIL, assets to be transferred to RCIL by Railways, facilities to be provided by Railways for the functioning of RCIL on Railways, the services to be provided by RCIL to the Railways etc. and also to draw an agreement between RCIL and Railways.

7.1.1.4 Agreement between Ministry of Railways and RCIL

In pursuance of the MOU an agreement was entered into between the Ministry of Railways and RCIL on 30.07.2003. This was subsequently revised in September 2006. The salient features of the agreements were as follows:

Railways agreed to -

- Grant to RCIL the Railways' right of way to lay the cables on Railway land and along the track for operating the OFC network.
- Transfer the Railways' existing OFC assets to RCIL in lieu of equity share to the value of assets transferred.
- Take ownership and pay RCIL the proportionate cost of four fibres (two pairs) from the 24 fibre (or more) OFC assets of RCIL on which RCIL had incurred capital expenditure.
- Pay RCIL the proportional maintenance charges for maintenance of four fibres or two fibres, as the case may be, retained/taken back/taken by Railways.
- Pay RCIL lease charges as arrived at mutually for recovery of principal and interest and maintenance charges for creating the STM-4[1] network.
- License the required Railway land and buildings to RCIL for installing OFC and power supply equipments for network operation centre, data centres, access nodes, transport nodes, backbone nodes and long haul equipment and towers on payment of licence fee charges.

---

[1] STM-4 (Synchronous Transport Module) is a SDH-ITU-T (Synchronous Digital Hierarchy-International Telecommunication Union-Transmission) fibre optic network transmission standard.

- Allow RCIL to commercially exploit the surplus capacity of the OFC network for which revenue share was payable by RCIL to the Railways.

RCIL agreed to -

- Share with Railways 5 per cent of the gross revenue from 30 July 2003 till such time that STM-4 network was set up and 7 per cent of gross revenue thereafter. Gross revenue included revenue from the use of MW towers, space in S&T and other buildings, MW bandwidth surplus capacity on Railways' short haul and long haul systems etc.
- The payment of Railways' share of revenue by RCIL was agreed to be deferred for five years, i.e. till July 30, 2008 and was to be paid on yearly basis thereafter. The deferred payment was to be paid from 6th year onwards with schedule of payment to be decided mutually by Railways and RCIL.

7.1.2 Audit objectives

The objective of the review was to assess the efficiency of the arrangements of the Indian Railways with RCIL with regard to transfer of assets, and the payments regarding revenue sharing and recovery of railway dues. The review covered the following aspects in particular:

- Railway's share on account of revenue sharing and license fee on various assets.
- Hiring of BSNL circuits in spite of having sufficient OFC network capacity provided by RCIL.
- Recovery of cost of electricity and other utilities from RCIL in connection with the execution of their works and later for operation and maintenance of the network.
- Recovery of dues towards Railway staff deputed to RCIL.

7.1.3 Audit Methodology

Audit review involved scrutiny of the documents of Telecom Directorate of Railway Board and the records available with the Telecommunication Department, Accounts Department and Personnel Departments of Zonal Railways and also the records and statistics provided by RCIL.

7.1.4 Audit findings

7.1.4.1 Revenue Sharing

(i) As per clause 3.2.1 of the agreement of July 2003, RCIL was to pay to the Railways a grant fee of ₹11.34 crore per annum for the use of Railways' right of way. However as per clause 3.1.13 of the revised agreement of September 2006, the Railways agreed not to charge RCIL the grant fee. Instead, RCIL agreed to pay to Railways 5 per cent of its gross revenue from 30.07.2003 till such time that STM-4 network was set up and 7 per cent thereafter.

(ii) The payment of revenue share to the Railways was deferred for 5 years up to 30.07.2008 and was payable on yearly basis thereafter. The deferred payment of revenue share for the 5 year period was to become payable from 6th year onwards with the schedule of payment to be decided with mutual consent.

Facts as per RCIL records	Audit findings
RCIL earned a total income of ₹813.15 crore during the period 2003-04 to 2008-09. However the net income sharable with the Railways during this period had been assessed by RCIL as ₹543.21 crore.	As per agreement, RCIL was to pay the revenue share of 5 per cent of the gross revenue till the STM-4 net work was set up and 7 per cent thereafter. There was no provision in the agreement for any deductions from the gross revenue sharable with the Railways. The Ministry of Railways stated (February 2011) that as per the definition in the agreement gross revenue meant "the total revenue earned from sale of Telecom capacity by RAILTEL excluding income from Railways after deducting mandatory license fees. "They added that the expenditure incurred by RailTel for hiring of fibre

	from other organizations i.e. PGCIL, KRCL, TELCOS etc. had been deducted from gross income to arrive at gross revenue (sharable income). Audit, however, observed that while calculating the shareable income, the MOR had deducted income earned from premium services provided to the railways. The deduction of income earned from Railways was not justified as this income has been earned from utilization of Right of Way of the Railways. Thus the definition of gross revenue in the agreement needed to be modified to include all income earned from utilization of railway's Right of Way.
Amount of ₹27.16 crore was assessed by RCIL as 5 per cent revenue share payable for the period 2003-04 to 2008-09, out of which ₹11.00 crore was paid in March 2010	As the STM-4 network of 22,438 RKM[2] was handed over to the Railways on 1st April 2004 (5409 RKM) and 1st April 2005 (17029 RKM) the revenue share should have been increased to 7 per cent from 1st April 2005. Hence a total of ₹56.04 crore was payable towards 5 per cent revenue share for the period 2003-04 to 2004-05 and 7 per cent for the period 2005-06 to 2008-09. The Ministry of Railways stated that revenue share payable by RailTel had been reworked after confirmation of payment for STM-4 bandwidth. Against the amount of ₹56.04 crore pointed out by Audit MOR had worked out ₹60.81 crore as share for the period 2003-04 to 2008-09. It was, however, seen that the income from

[2] RKM-Route kilometre

	premium services to railways had been deducted which was not in order. The share of railway therefore needed to be reworked. Thus RCIL had short assessed revenue share of ₹28.88 crore on the gross income for the period 2003-04 to 2008-09. Ministry of Railways stated that it was not correct to say that railway received short payment of ₹28.88 crore due to inadequate records keeping and lack of coordination. Audit, however, observed that the Railways had recalculated their share after being pointed out by Audit.
One of the main objectives of formation of RCIL was to commercially exploit the surplus telecom network capacity of the Indian Railways in order to generate additional revenue for the Indian Railways through the revenue sharing arrangements detailed in the agreement. RCIL was marketing the surplus telecom network capacity of Indian Railways to other telecom vendors and five/seven percent of the net sharable revenue earned by them was passed on to the Railways.	The Railways had not set up any mechanism to verify the revenue share received from RCIL. Even ten years since its inception, lack of proper coordination and inadequate record keeping prevented the Railways from obtaining a true and fair assessment of the functioning of RCIL. MOR stated that business was monitored and billing was done from regional offices. Procedure would be set up involving zonal railways for verification of RCIL accounts and to work out correct revenue share. It was also stated that RailTel would be advised to expeditiously implement computerization of accounting system to make verification smooth.

Thus lack of system to verify the revenue share received by the Railways, inadequate record keeping and lack of proper coordination led to short receipt of ₹28.88 crore towards the revenue share receivable from RCIL.

Recommendation
The Railways need to strictly observe the provisions in the agreement and update their records to ensure that revenue share was received correctly.

Non-realisation of share of revenue for Cyber Cafés

The Railway Board proposed to provide Cyber Café facility at stations on Indian Railways through RCIL and policy guidelines in this regard were framed in February 2004. In December 2005, Railway Board identified 301 stations over Indian Railways for provision of Cyber Cafés in two Phases. Twenty five per cent of the gross revenue earned by RCIL from cyber café was sharable with the

In 14 zones information on revenue share towards cyber café was not made available. In respect of two zones where records were available Audit observed the following:

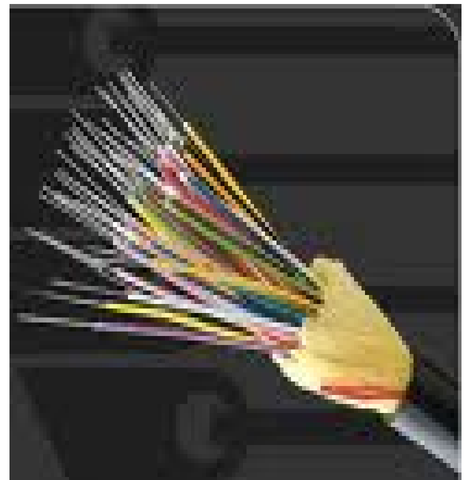
- In Southern Railway three cyber cafes were in operation at Ernakulam, Coimbatore and Chennai Central since 2006, 2007 and 2008 respectively. However the Railway's share of revenue amounting to ₹8.53 lakh had not been received from RCIL (April 2010).
- In NWR, though two cyber cafés were in operation at Jaipur (since November 2006) and Ajmer (since December 2007), an amount of ₹18 lakh due on them as revenue share had not been received (April 2010).

The Ministry of Railways stated in their reply that RailTel was in the process of reconciling the income and would settle the dues payable to IR before March 2011.

7.1.4.2 Transfer of additional OFC assets

As per agreement of September 2006, optical fiber cable assets created by the Railways were to be transferred to RCIL in lieu of issue of equity equal to the value of such assets till Railways' equity reached 51 per cent.

In 13 out of 16 zones, proper records of transfer of assets were not made available to audit. In three zones where records were available, the following observations were made:



Optical Fibre Cable

- A total of 1842 RKM of OFC assets were transferred to RCIL in WR and SR. However, no equity had yet been allotted to the Railways towards the value of the same which was assessed at ₹35.37crore.
- In South Eastern Railway (SER) 584 KM OFC was not taken over by RCIL. Hence the value of this OFC was not included in equity. Further, SER had not transferred back 937 km of excess fibre pair taken from RCIL for which a cost of ₹20800 per KM per pair was payable as lease charges. The total avoidable payment on this account was assessed as ₹1.95 crore.

Ministry of Railways stated that they would ensure that every asset of railways transferred to RailTel was accounted for and converted into equity after due adjustments as per agreement.

7.1.4.3 Licensing Assets

Railway Board issued guidelines in November 2004 for granting right of way and sparing land/building to RCIL. In terms of these guidelines, the S&T Department in the Divisions was to coordinate with other departments for obtaining Divisional Railway Manager's approval regarding use of land/building/towers. The guidelines stipulated that an agreement should be executed between RCIL and S&T Department of the Division, for every allotment of assets. Clause 3.1.7 of the revised agreement also provided for licensing of land/building required for installing OFC and other equipments and towers to RCIL on payment of licence fee charges at the prevalent standard rates. At stations, wherever RCIL had provided equipment which were used for Railway's critical applications, no licence fee was chargeable.

It was noticed that complete records of licensing of Railway assets were not maintained in any of the 16 zones. In five[3] out of 16 zones the records in respect of licensing of assets to RCIL were not made available and in two[4] zones records of a few divisions only were made available by the Railway Administration. Accepting the audit contention Ministry of Railways stated that locations which were created exclusively for use of RailTel customers were being reconciled with railways and license fee as due would be paid by RailTel to railways by March 2011.

Scrutiny of available records in the zones revealed the following:-

Recovery of Licence Fee

Agreements for licensing the assets were not made in any of the 16 zones before handing over the assets to RCIL.

Porta Cabin

- Licence fee of ₹69.97 lakh was outstanding in five zones[5]. While no licence fee was being recovered for OFC huts and Porta cabins constructed in North Central Railway (NCR) and North Western Railway (NWR), in South Western Railway (SWR) ₹23.13 lakh was outstanding towards rent for office building and licence fee for the area allotted for running Cyber Café.

- Ministry of Railways stated that in SWR part of the office space houses equipments of Railways and only ₹20,27,653 was due which has been received. There was no comment for NCR and NWR.
- In South Eastern Railway (SER), though an area of 72.32 sq. metre was in occupation of RCIL, no licence fee was being recovered from them.
- In Southern Railway (SR) and South East Central Railway (SECR) though a large number of assets had been licensed, no records regarding market value of assets, licence fee recovered etc. were available with the Railways. In NFR though 3 rooms and 49 towers were licensed to RCIL

---
[3] NFR, NER, NR, NCR, ECoR
[4] SCR, CR
[5] SWR-₹23.13 lakh, ER-₹ 13.28 lakh, WCR-₹ 1.07 lakh, CR-₹ 14.08 lakh, NWR-₹ 18.41 lakh.

the records in connection with the licensing were not made available to Audit.

Disputed cases of recovery of licence fee

In the following cases there were disputes in the area of land occupied by RCIL, as a result Railways were not able to recover the licence fee due.

- In Western Railway near Mahalaxmi station 6456 Sq. ft. of land was leased to RCIL in December 2005 for an annual licence fee of ₹61.98 lakh. Scrutiny of records revealed that RCIL had occupied an area of 10986.39 sq.ft. of railway land for which the annual licence fee worked out to ₹1.05 crore. RCIL had neither signed any agreement for this additional land nor paid any lease charges for the entire area occupied by them citing Clause 3.1.7 of the agreement of September 2006 which stipulated that the licence fee was not payable at stations where RCIL would be providing equipments which were used for Railways critical applications. Audit observed that the clause exempted only stations from the licence fee, whereas this land was located away from the station and was being utilized by RCIL for their business with non-Railway customers. Hence RCIL was liable to pay licence fee on this land. The total unrealized licence fee for the period from 2006-07 to 2009-10 worked out to ₹4.22 crore. Ministry of Railways stated that the matter was under reconciliation between Western Railway and RailTel.

RCIL structure at Mahalaxmi, Mumbai

Proper licensing agreement and clear demarcation of assets were not made before handing over the same to RCIL. Railways were neither able to assess the dues recoverable from RCIL nor resolve disputes on land licensed to it. Even in the known cases of licensing, an amount of ₹10.23 crore was outstanding for the period up to 2009-10. In the absence of proper records of assets licensed, Audit could not assess the actual dues recoverable from RCIL. While accepting audit comments, Ministry of Railways stated that RailTel had already been advised to resolve all disputed cases quickly and make due payment to IR as applicable in terms of agreement and that efforts would be made to settle the disputed cases by March 2011.

Recommendations

The Railways need to maintain proper records of assets licensed to RCIL. All licensing requirements should clearly stipulate licence fee payable, for the specific use and the area of land demarcation for the purpose.

7.1.4.4 Delay in/non surrender of hired BSNL circuits

The Railway Board in August 2005 instructed the Zonal Railways that since RCIL had been formed for expeditiously modernizing Railways Train Control, Operation and Safety Systems with more than 23000 RKMs of OFC already commissioned, the communication network rented from BSNL needed to be switched over to Railway's OFC network for improving reliability, response and savings.

- A review in Audit revealed that though many of the BSNL lines were identified for surrender by the Zonal Railways with the commissioning of Railway's own OFC network, they were still continuing or there were persistent delays in surrendering resulting in avoidable payment of rental charges to BSNL. The total avoidable expenditure towards rental charges due to delay in/non surrender of identified BSNL lines was ₹1.12 crore for the period up to 2009-10 in four zones[6].

- Further, the Railways should have transferred all their data circuits to their own OFC network as the same was now available in all areas of operation. No such action had however been taken by the Railways. Hiring charges paid by the Railways on such circuits was to the tune of ₹10.16 crore in twelve zones[7] for the two year period 2008-10. In other zones the information could not be obtained for want of relevant records.

Reasons for non-surrender of BSNL lines as stated by the Zonal Railways were that PRS, UTS and FOIS circuits were retained in view of redundancy required due to technical reasons and unhindered services considering the highly sensitive nature of service. The reasons for retention of BSNL circuits

[6] SR-₹12.07 lakh, SWR-₹48.72 lakh, ECR-₹5.42 lakh, SECR-₹45.59 lakh.

[7] SR-₹1.57 crore (for 2009-10), SWR-₹2.59 crore, ER-₹0.04 crore, NCR-₹0.98 crore, SER-₹0.67 crore, WCR-₹1.23 crore, NER-₹0.60 crore (for 2008-09), SCR-₹0.34 crore, SECR-₹0.48 crore, NR-₹0.49 crore, CR-₹0.74 crore, ECR-₹0.43 crore.

were not tenable as the Railways failed to surrender even some of the lines identified as redundant. Further the Board's instructions to switch over to their own OFC network, the retention of BSNL network were not implemented by the Railways in spite of lapse of five years; thus continuing dependence on BSNL network resulted in under-exploitation of own OFC network of Railways created on huge investment. Ministry of Railways stated that zonal railways have hired links from BSNL in line with Railway Board guidelines and they have been advised to review the necessity of BSNL hired links on regular basis and surrender wherever possible.

Recommendation

Railways need to take time bound action to switch over to their own OFC network and curtail the avoidable payment of hire charges to BSNL.

7.1.4.5 Recovery of Electricity charges

In terms of clause 6.1.6 of the revised agreement of September 2006, RCIL was to bear the cost of electricity provided by Railways for the execution of the works and for operation and maintenance of the network. At stations, wherever RCIL would provide equipments for Railways' use, electricity was to be provided without any charges as far as feasible.

In six[8] out of sixteen zones proper records of recovery of electricity charges from RCIL were not maintained, whereas in ECoR the charges due were recovered. In the remaining eight zones[9] it was observed that an amount of ₹84.83 lakh was outstanding as of 2009-10 Ministry of Railways stated that railways have been advised to maintain proper accountal of recovery of electricity charges.

---

[8] CR, WR, NR, ECR, NFR, SER.

[9] SR-₹26.98 lakh, SWR-₹0.56 lakh, ER-₹2.73 lakh, WCR-₹19.63 lakh, NER-₹16.98 lakh, NWR-₹9.59 lakh, NCR-₹1.38 lakh, SCR-₹4.95 lakh, SECR-₹2.03 lakh.

7.1.4.6 Recovery of Foreign Service Contribution

In respect of Railway staff/officers who were on deputation with RCIL, a Government of India Undertaking, Foreign Service Contribution (FSC) comprising of leave salary contribution at 11 percent of Pay drawn and pension contribution based on pay and length/class of service, was recoverable.

In five out of 16 zones records relating to FSC charges were not made available/maintained. In seven[10] zones an amount of ₹33.92 lakh was outstanding as of 2009-10. In three zones (SR, NER and ECR) the dues were not claimed (March 2010) and in one the records were not made available. Ministry of Railways stated that FSC contribution towards employees was being paid by RCIL to the railway regularly. It was also stated that this would be further reconciled with railways and required FSC paid.

Recommendation
Railways need to update their records on staff deputed to RCIL and recover the outstanding dues towards foreign service contributions and other charges for these employees.

7.1.4.7 Other Points

Payment of advance to RCIL

In terms of Railway Board's instructions, advance payment of 15 percent of the estimated cost of a work was to be made to RCIL towards the cost of survey, preparation and execution of plans and tender process.

Review of records in SCR revealed that in respect of six works an advance payment of ₹6.07 crore was made to RCIL while the actual expenditure incurred towards survey and award of contract was only ₹16.85 lakh. The loss to SCR by way of interest at 12 per cent worked out to ₹73.00 lakh per annum on the advance payment of ₹6.07 crore. It was further noticed that RCIL was levying 14 percent interest on advance payments made to its contractors, whereas Railways were releasing the advance to RCIL without any interest thereby allowing RCIL to make profit out of interest free advance.

[10] SR-₹5.77 lakh, SWR-₹0.41 lakh, NWR-₹0.61 lakh, NER-₹16.18 lakh, WCR-₹3.32 lakh, SER-₹3.84 lakh, SECR-₹3.79 lakh.

Ministry of Railways stated that payments against railway projects were made in stages. Five per cent of the estimated cost of work was paid for survey and preparation of execution plan and 10 per cent after award of contract. It was also stated that RailTel was not charging 14 per cent interest from contractors since mobilization advance had not been availed by its contractors so far.

The contention was not acceptable since in this case 15 per cent advance payment in respect of six works was made in lump sum and railway suffered loss of interest.

Excess payment of maintenance charges on STM-1 equipment of Railways

STM-1 equipments at stations in SCR were taken over by the Railway and an MOU was entered into with RCIL in November 2008 for maintenance of these equipments at 186 stations for the period January 2008 to March 2009. In terms of the MOU, annual maintenance charges at 10 percent of the cost of STM-1 equipment, racks for housing these equipment and single room prefabricated structure were paid by Railway. Since the maintenance was to be carried out only on STM-1 equipments, payment of maintenance charges on the cost of racks and pre-fabricated structure, which only housed the equipment and did not require any intensive technical maintenance, was irregular. The Railway Administration paid an amount of ₹77.93 lakh as against the actual maintenance charge on equipment which worked out to ₹29.30 lakh resulting in excess payment of ₹48.63 lakh. While stating that equipments and rack constitute the whole unit Ministry of Railways stated that RailTel and Zonal Railways would be advised to verify actual expenditure incurred for maintenance of equipment/infrastructure other than electronic equipment and RailTel would be advised to pay back excess AMC charges.

7.1.5 Conclusion

Audit review of the arrangements of the Railways with RCIL with regard to transfer of assets, revenue sharing and recovery of railway dues revealed that there were inadequate internal controls within the Railways in respect of transactions with RCIL. The Railways were totally dependent on RCIL records in respect of all arrangements entered into and payments were accepted without verifying the accuracy of Railway dues. There was lack of coordination between Railway Board and Zonal Railways in implementation of policy guidelines. The total loss to the Railways could not be assessed in Audit due to non availability of proper records.

In their reply Ministry of Railways stated that Zonal Railways and RailTel would be advised to reconcile the accounts and RailTel would be asked to settle all balance dues by March 2011. It was stated that to ensure compliance with the provisions of agreement, a procedure would be set up involving Zonal Railways for verification of RCIL accounts as well as revenue shares to railways. Further, RailTel would be advised to expeditiously implement computerization of the accounting system for the purpose. Ministry also assured to ensure that every asset of Railways transferred to RailTel was accounted for and converted into equity after due adjustments as per the agreement.

7.2 Functioning of Rail Vikas Nigam Limited

Executive summary

Rail Vikas Nigam Limited (RVNL), a Special Purpose Vehicle (SPV) was constituted in January 2003 under the Companies Act, 1956. Memorandum of Understanding (MoU) was entered into between the Ministry of Railways and RVNL on 16 October 2003, which laid down the roles and responsibilities of both RVNL and Ministry of Railways. The main objective of floating RVNL was to undertake project development, resource mobilisation and execution of projects *relating to strengthening of Golden Quadrilateral and its diagonals, port/hinterland rail connectivity and other such bankable projects covered under National Rail Vikas Yojna (NRVY).*

The areas studied were planning of handing over of the projects to RVNL as well as the execution of projects by RVNL besides the mode of project financing.

Study revealed that Ministry of Railways deviated from the mandate envisaged while setting up of RVNL by transferring projects not covered under NRVY to RVNL. It was also observed that the planning process in the Ministry of Railways was adhoc as the basket of projects with RVNL was continuously being modified since its inception. Further, Ministry of Railways continued to transfer additional projects to RVNL without adequate assessment of their financial viability and RVNL's capabilities.

The project management practices followed by RVNL for executing the projects were not efficient enough as many of the Project suffered delays and cost overrun thereby defeating the basic objective of assigning projects to RVNL for fast track implementation.

The decision of the Ministry of Railways allowing RVNL to borrow from IRFC narrowed the scope of raising market borrowings. Further, RVNL could mobilise resources from the investors in respect of only those projects where the investors had strategic interest in the projects. RVNL had so far been able to form only five SPVs and could mobilise Rs.718 crore through the strategic partners of these SPVs, which constituted just nine per cent of the total resources mobilised as of March 2010. This indicated that RVNL was largely ineffective in performing one of its core functions i.e generating additional resources.

Despite the existence of RVNL since 2003, Ministry of Railways had yet to finalise the modalities for effecting transfer of completed projects from RVNL for incorporating the same in the Block Account of Railways.

Gist of recommendations

- *The planning process in the Ministry of Railways need to be aligned with the mandate of RVNL and should take into account their capacity for timely project implementation.*
- *Ministry of Railways need to evolve an effective system of monitoring the progress of projects and ensure better coordination with RVNL to initiate*

necessary remedial measures for completing the projects timely, economically and efficiently.

- *Ministry of Railways should impress upon RVNL to make constructive efforts to explore the avenues for generating funds through sources such as multilateral/ bilateral funds, domestic borrowing etc which incidentally was one of the core functions of RVNL as .per the MoU between Indian Railways and RVNL*
- *Ministry of Railways should finalise on priority the modalities for effecting transfer of completed projects from RVNL and for incorporating the same in the Block Account of Railways.*

7.2.1 Introduction

Rail Vikas Nigam Limited (RVNL), a Special Purpose Vehicle (SPV) was constituted in January 2003 under the Companies Act, 1956 with an authorised equity capital of ₹1,000 crore. The capital was fully contributed by the Railways. Over the years with the increase in RVNL's activities, the authorised capital was raised to ₹ 3000 crore. As of March 2009, the paid up share capital of the company stood at ₹ 2085.02 crore. During 2008-09, the company earned a profit of Rs 40.83 crore and declared a dividend of Rs 8 crore. A Memorandum of Understanding (MoU) was entered into between the Ministry of Railways and RVNL on 16 October 2003, which laid down the respective roles and responsibilities of RVNL and Ministry of Railways.

The main objective of floating RVNL was to undertake project development, resource mobilisation and execution of projects relating to strengthening of Golden Quadrilateral and its diagonals, port/hinterland rail connectivity and other such bankable projects covered under National Rail Vikas Yojna (NRVY).

National Railway Vikas Yojana (NRVY) was conceived ***as a non-budgetary investment initiative*** for creation and augmentation of capacity of rail infrastructure including the strengthening of rail connectivity to ports and development of multi modal corridors to hinterland and construction of mega bridges. NRVY was formally launched on 26 December 2002 at an investment of ` 15000 crore over a period of five years. The NRVY comprised, among others, the following investment components.

- *Strengthening of the Golden Quadrilateral and its Diagonals connecting the 4 metro cities i.e. Delhi, Mumbai, Chennai and Kolkata (estimated cost ₹ 8000 Crore)*
- *Providing Rail based port-connectivity and development of corridors to hinterland including multi-modal corridors for movement of containers (estimated cost ₹ 3000 Crore)*

7.2.2 Audit objectives

The purpose of audit was to examine whether the basic objectives for which RVNL was created were fulfilled. Accordingly, a review of the arrangement between the Ministry of Railways and RVNL was carried out with a view to assess the following:

- There was a well defined and structured planning process for transfer of projects to RVNL in consonance with the government policies as well as the mandate of RVNL
- Management of projects transferred to RVNL was efficient and focussed on the objective of faster delivery of projects in a cost effective manner.
- The objective of resource mobilisation for financing projects through non budgetary investment initiatives was adequately pursued.

7.2.3 Audit Approach and Methodology

- Audit approach was designed taking into account the identified risks and controls on the basis of their significance to the achievement of key objectives. Besides interaction with the key officials of the Ministry of Railways and RVNL the methodology comprised review and analysis of records of the Railway Board and of the Zonal Railways relating to policies and guidelines of the Railway Board for implementation of railway projects.

7.2.4 Audit findings

RVNL was primarily constituted to develop and implement various projects to quicken the augmentation of infrastructure on the Golden Quadrilateral and its diagonals and to leverage non budgetary resources and market borrowings. As per the terms of the MoU, RVNL was, *inter- alia*, responsible for the following:

- Prepare feasibility studies of projects /cluster of projects for obtaining approval of Ministry of Railways;

- Financial closure, execution, monitoring satisfactory completion and commissioning of the project assigned and for coordination with all the concerned agencies;
- Use a mix of funding sources such as multilateral / bilateral funds, domestic borrowing etc;
- Undertake projects directly or through BOT route or create project specific SPVs or any other financial structure considered suitable for a particular project; and
- Entrust to the respective Zonal Railway the execution of rail projects on deposit terms and on completion transfer the projects to the concerned Zonal Railway for operation and maintenance.

Ministry of Railways was responsible for making available requisite funds, facilities, services, land and other resources required for executing projects assigned to RVNL, operation and maintenance of project facilities to enable RVNL to perform all its obligations.

A review of the progress of implementation of NRVY and the performance of RVNL was conducted across all zones. The detailed Audit findings are given in the following sections.

- Planning process
- Project management
- Project financing
- Other deficiencies

7.2.5 Planning Process

Initially, Ministry of Railways had entrusted 53 projects pertaining to strengthening of the golden quadrilateral and its diagonals and port connectivity works to RVNL. These projects were primarily in the nature of laying of additional lines by way of doubling, third line and fourth line, etc., and electrification of missing links.

One of the primary objectives in setting up RVNL was to generate additional resources through market /external borrowings for project financing to overcome the Indian Railway's bottleneck of budgetary constraints in meeting the demand of the huge throw-forward of projects. Only projects considered bankable and therefore amenable to market funding were to be transferred to RVNL. A review of the planning process disclosed the following:

7.2.5.1 Of the initial 53 projects transferred, 16 had already progressed substantially. In respect of these 16 projects, the concerned Zonal Railways were to continue to execute and complete them, while the projects were to be formally transferred to RVNL and funds routed through it. The reasons for transferring these projects to RVNL were uncertain as these were already being implemented adequately by the various Zonal Railways. Further, these projects were funded through Railway's Budgetary Support through RVNL.

7.2.5.2 On the premise that the project management practices of RVNL would be better and funds from external sources could be leveraged, Ministry of Railways consistently transferred additional works to RVNL. The financial viability of projects was not properly assessed. RVNL suggested transfer of 13 projects back to the Indian Railways as these were considered financially unviable on the basis of bankability studies. Even though NRVY was conceived for implementation of projects within a period of five years (2003-2008) and projects to be undertaken under NRVY were also identified, the process of transferring projects to RVNL continued as an ongoing exercise. Up to March 2010, 13 projects initially entrusted to RVNL were taken back due to their non-bankability, while 19 additional projects were transferred to RVNL. As of March 2010, RVNL was entrusted with 59 projects. Such frequent changes in the basket of projects with RVNL rendered the planning process very adhoc and adversely affected the pace of implementation.

7.2.5.3 Though RVNL was established with a clear mandate from the Cabinet to undertake projects of NRVY, as many as 19 projects transferred did not form part of the NRVY and were thus beyond the mandate of RVNL. These projects comprised 15 port connectivity and four golden quadrilateral projects. Further, out of 15 port connectivity projects, three works pertained to Kolkata Metro Railway Projects which were in no way related to port connectivity.

7.2.5.4 Despite being aware of the slow progress of works already assigned to RVNL, Ministry of Railways consistently transferred additional projects without adequate assessment of these financial liability and RVNL's capabilities. Subsequently, in one of its Board meetings in November 2008, the Railway Board expressed concern over the poor pace of progress of works. Railway Board, in January 2009 even considered withdrawing some projects from RVNL but decided against it in the interest of not causing a mid course disruption. (Para- 7.2.6).

Ministry of Railways thus deviated from the mandate envisaged while setting up of RVNL by transferring projects not covered under NRVY to RVNL

Recommendation

The planning process in the Ministry of Railways need to be aligned with the mandate of RVNL and should take into account their capacity for timely project implementation.

7.2.6 Project management

Apart from resource mobilisation, a major objective of entrusting RVNL with bankable projects under NRVY was to quicken the pace of augmentation of railway infrastructure and execution of projects in a timely and cost effective manner with its superior project management practices.

The projects to be transferred to RVNL were classified into four categories as follows:

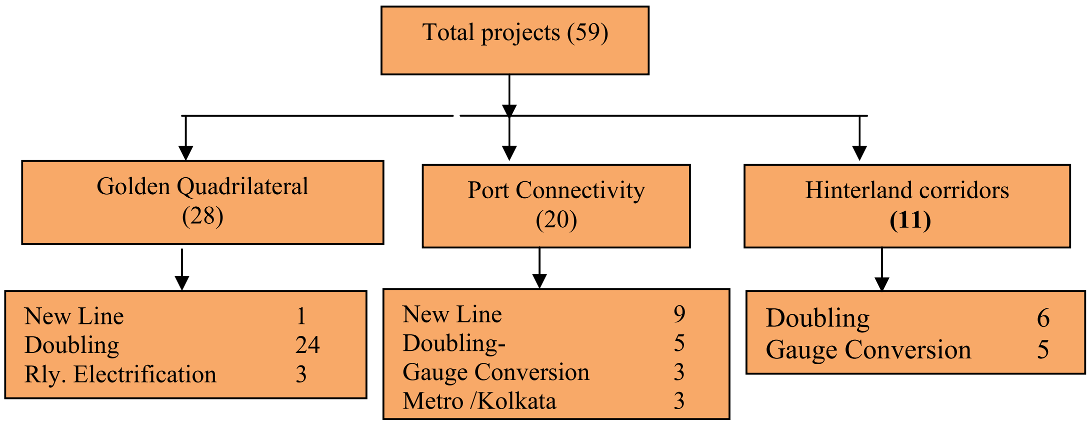
- Works, which had progressed substantially in the Zones
- Projects to be funded by Asian Development Bank
- Projects that were sanctioned by Railways but had either not begun or had progressed very little
- Unsanctioned projects required to be taken up afresh

A review of the projects indicated that RVNL was largely entrusting projects (32 out of the 59 projects) to the various Zonal Railways for execution. During the initial transfer of 53 projects to RVNL only 16, which had progressed substantially were retained with the Zones for execution, with only paper transfer to RVNL for routing of funds. By continuously entrusting additional projects to the Zones for execution, RVNL was largely utilising the wherewithal of railways rather than leveraging external resources to quicken the pace of augmentation of infrastructure.

Of the 27 (59-32) projects being handled by RVNL, 19 were being executed by RVNL itself and the remaining eight projects were being implemented in Public Private Partnership (PPP) mode by creation of project specific SPVs. An analysis of the progress of the projects revealed the following:

7.2.6.1 Project Execution on Golden Quadrilateral and Port Connectivity Projects

As of March 2010, a total of 59 Projects were transferred to RVNL which are indicated category-wise in the chart below:



Review of progress of projects as of March 2010 revealed the following:-

Particulars	Projects executed by RVNL		Projects executed by Railways for RVNL		Total
	Golden Quadrilateral works	Port /Hinterland connectivity	Golden Quadrilateral works	Port /Hinterland connectivity	
1	**2**	**3**	**4**	**5**	**6**
Number of projects	16	11	12	20	**59***
Completed	2	1	7	9	**19**
In Progress	**14**	**10**	**5**	**11**	**40**

Includes 40 projects transferred to RVNL in May/June 2003

From the table above, it was observed that out of 59 Golden Quadrilateral and Port /Hinterland Connectivity projects, 40 projects were transferred to RVNL in May /June 2003 and of these, only 19 projects (47.5 per cent) were completed as on date. The remaining 21 projects were still in progress. Despite poor progress of projects, Ministry of Railways transferred 19 more projects to RVNL between January 2006 and March 2010 leaving 40 projects yet to be completed.

Review of the progress of 40 ongoing projects revealed that as of March 2010, 24 projects were in the preliminary stage pending finalisation of location survey, preparation of cost estimates, acquisition of land etc. The physical progress in respect of seven out of balance 16 projects was less than 50 per cent.

Bulk of the projects suffered from inordinate internal delays in the tendering process, finalisation of drawings for the bridges etc., which were avoidable. Further, RVNL itself admitted in its Annual Report 2008-09 that a few projects did not progress satisfactorily as they were lacking in coordinating arrangements with the Railways for movement of material and assistance while integrating the projects with the existing railway system. Poor performance of the contractors had also adversely affected the execution of the projects and the project management practices of RVNL were inefficient, though RVNL was expected to bring in superior project management practices. Ministry of Railways occasionally reviewed the performance of RVNL and expressed dissatisfaction over the progress of ongoing projects. Despite this, remedial systemic improvements were not put in place to prevent or alternatively minimise delays in project execution. The delays not only defeated the basic objective of fast tracking the augmentation of infrastructure but also had substantial financial implications in terms of cost overruns.

Considering the revised cost of the projects, the cost escalation had already been estimated at ₹ 5580.48 crore and the same was bound to rise further at the current pace of progress. To convey a perspective of the overall financial implication of the delays in respect of completed and ongoing projects executed by RVNL, the position as of March 2010 is indicated below.

(₹ in crore)

Particulars	Original estimated cost	Revised Estimated cost	Cost over run as of March 2010
Completed works ** (10 PC projects)	1699.72	2886.45*	**1186.73**
Completed works ** (9 GQ projects)	983.77	1309.04*	**325.27**
Total cost of completed projects	**2683.49**	**4195.49**	**1512.00**
Ongoing /Incomplete works (19 GQ projects)**	4631.88	7770.28	**3138.40**
Ongoing /Incomplete works (21 PC projects)**	7372.95	9815.03	**2442.08**
Total estimated cost of ongoing projects	**12004.83**	**17585.31**	**5580.48**

**** Figures indicate actual expenditure***

For project execution, RVNL was entitled to 1 per cent of the expenditure on Ministry of Railways' projects which were being directly implemented by the RVNL. It was observed that till March 2009, RVNL charged ₹35.39 crores for the projects worth ₹ 3539 crore executed as deposit works for Ministry of

Railways. Linking RVNL's earnings to the total cost of Projects provides adverse incentives towards increase in the expenditure. IR may consider capping the entitlements of RVNL with a view to preserve adequate incentives in favour of containing expenditure.

7.2.6.2 Execution of Projects through SPVs

The MoU allowed RVNL to create project specific SPVs or any other financial structure considered suitable for a particular project. The SPV envisaged equity participation of RVNL and strategic partners. The funds required for the projects were to be raised through market borrowings.

Out of eight projects planned to be implemented by creating SPVs, five SPVs relating to port connectivity works had since been formed. The equity structure planned and the status of formation of SPVs is indicated below:

(₹ in crore)

Name of Project	Estimated cost	Total equity	RVNL's equity	Equity from other partners	Handed over to RVNL in	SPV formed in
1	*2*	*3*	*4*	*5*	*6*	*7*
Gandhidham - Palanpur (313 Km)	482.53	200.00	100.00	100.00	May. 2003	Jan. 2004
Haridaspur – Paradeep (82 Km)	791.18	275.00	133.20	141.80	May. 2003	Oct. 06
Obulavaripalla – Krishnapattanam (114 Km)	732.81	270.00	81.00	189.00	May. 2003	Oct. 06
Bharuch - Samni - Dahej (62 Km)	200.80	85.00	25.00	60.00	Mar. 2006	Aug. 08
Angul Sukinda (99 Km)	638.50	421.00	210.50	210.50	Feb. 2006	Feb. 09
Total	**2845.82**	**1251.00**	**549.70**	**701.30**		

From the table, it was observed that the equity contribution of RVNL constituted 44 *per cent* (₹549.70 crore) out of the total authorised equity of ₹ 1251 crore. As of March 2009 the total paid up share capital of SPV was only ₹ 635.52 crore that included ₹ 295.87 crore (47 *per cent*) equity contribution of RVNL. The poor response from investors had resulted in considerable delay in formation of SPVs.

An analysis of the reasons attributable to the delays revealed the following:

- In respect of Obulavaripalla – Krishnapatnam, Ministry of Railways took about two years in finalising the ruling gradient of the track leading to delay in formation of the SPV. Only Phase I of the project could be completed by November 2009 as against the targeted completion of the project by October 2008.

- In New Line project –Angul – Sukinda, the formation of SPV was delayed by three years due to delay in deciding the model of sharing of revenue between the SPV and the Railways. Consequently, the project was badly delayed and as of March 2010, there was no physical progress.
- The gauge conversion of Gandhidham – Palanpur was the only SPV project completed so far. Though the project was approved in January 2000, the SPV was formed in January 2004. The reasons for the delay, however, could not be ascertained from the records made available to audit.

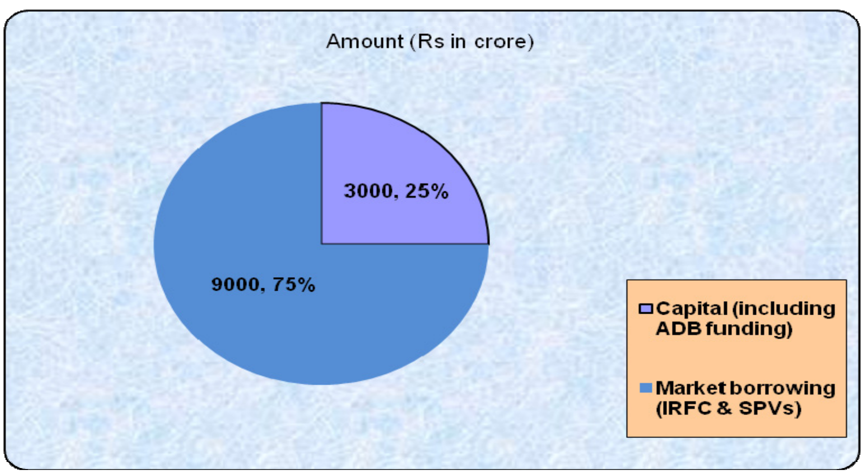
Thus, inadequate planning and poor monitoring led to delays and cost overrun thereby defeating the basic objective of assigning projects to RVNL for fast track implementation.

Recommendation

Ministry of Railways need to evolve an effective system of monitoring the progress of projects and ensure better coordination with RVNL to initiate necessary remedial measures for completing the projects timely, economically and efficiently.

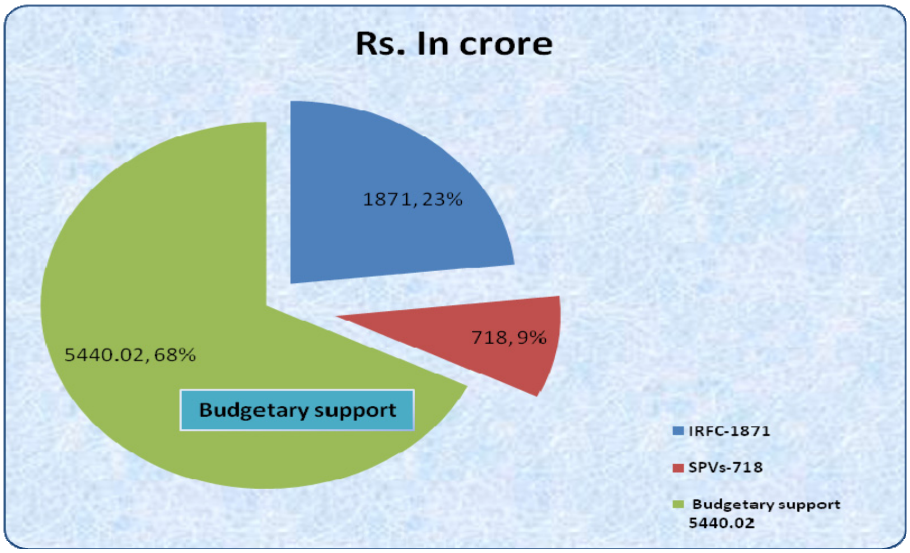
7.2.7 Project Financing

The financing plan of the projects initially transferred to RVNL in May/ June 2003 is indicated below:



The Ministry of Railways, therefore, envisaged a budgetary support of only 25 per cent or ₹ 3000 crore (including ₹ 1500 crore loan from ADB) in the initial funding plan itself and the balance was planned to be raised by borrowing from the market and through public private partnership. For this purpose, eight projects were planned to be implemented by creating SPVs through equity participation with strategic investors.

Audit of records disclosed that the funding of projects was initially met from the funds released by the Ministry of Railways in the form of paid up capital (equity). Subsequently, funds were released from the Capital Fund and also as a project advance from the years 2006-07 and 2008-09 onwards respectively. Details of fund released to RVNL till March 2010 are shown below:



Analysis of funds released to RVNL vis-à-vis financial plan envisaged initially revealed that the MOR released ₹ 5440.02 crore as budgetary support (which included paid up capital - ₹ 2085.02 crore and Project Advance –₹ 3355 crore) till March 2010 as against the budgetary support of ₹ 3000 crore planned ab-initio in 2003. Budgetary Support by Ministry of Railways thus formed 68 per cent of the total project cost of RVNL against the 25 per cent planned initially. Further, total paid up share capital of SPVs (as referred in para 6.2) was only ₹ 635.52 crore which included ₹ 295.87 crore (47 *per cent*) equity contribution of RVNL itself indicating that the scope of generation of external resources was limited. RVNL could mobilise resources in respect of only those projects where the investors had strategic interest in the projects.

It was also observed that the MoU entered into between Indian Railways and RVNL does not contain any provision for release of funds to RVNL as "Project Advance". Till 31 March 2010, an amount of ₹ 3355 crore stands released to RVNL as "Project Advance" without any interest liability on RVNL's part.

Records also revealed that subsequent to the formation of RVNL, a number of changes in the financial structure, mandate and scope were made by the Ministry of Railways which were against the original objectives of formation of RVNL for creating railway infrastructure with innovative financing and private participation. In August 2004, Ministry of Railways permitted borrowings only through IRFC and decided to bear full responsibility for the repayment of the principal and cost of borrowing on the funds borrowed from IRFC. RVNL had borrowed funds aggregating to ₹ 1871 crore from IRFC as on March 2010.

The decision of the Ministry of Railways allowing RVNL to borrow from IRFC narrowed the scope of raising market borrowings. Till 31 March 2010, IRFC had extended a loan of ₹ 1871 crore to RVNL. RVNL is liable to pay IRFC, the amount borrowed and interest thereon. Review of records in Railway Board revealed that Indian Railways is releasing funds to RVNL to meet its repayment liability towards funds borrowed from IRFC. The total liability against a loan amount of ₹ 968 crore extended by IRFC (to RVNL) in 2005-06 and 2006-07 was assessed at ₹ 1245 crore which includes the interest accrued at rates varying between 7.97 and 9.72 per cent per annum. Till June 2010, Indian Railways have released a sum of ₹ 106.15 crore (including ₹ 50.88 crore towards interest) to RVNL for repayment of loan from IRFC. Thus, if Railways are servicing the loan borrowed by RVNL from IRFC, allowing RVNL to borrow from IRFC was not based on sound commercial logic.

Consequently, bulk (68 *per cent)* of the funding of RVNL projects was through equity provided to RVNL either by Ministry of Railways out of its internally generated resources or through Gross Budgetary Support, which defeated the very objective of creation of RVNL. The projects transferred to RVNL were, in fact, effectively competing with other railway projects for allocation of Railway funds. This was in spite of RVNL being allocated projects considered *bankable*. RVNL has so far been able to form only five SPVs and could mobilise ₹718 crore through the strategic partners of these SPVs, which constituted just nine *per cent* of the total resources mobilised as of March 2010. This indicated that RVNL was largely ineffective in performing one of its core functions i.e generating additional resources.

Recommendation

Ministry of Railways should impress upon RVNL to make constructive efforts to explore the avenues for generating funds through sources such as multilateral /bilateral funds, domestic borrowing etc which incidentally was one of the core functions of RVNL as per the MoU between Indian Railways and RVNL.

7.2.8 Handing over of completed projects

In terms of Para 2.6 of MoU between RVNL and Ministry of Railways, projects on completion would be transferred to the concerned Zonal Railways for operational maintenance under a mutually agreed arrangement which would inter, alia provide, a suitable mechanism towards debt servicing cost and overheads of RVNL. In April 2006, Ministry of Railways decided that after physical completion of a project by RVNL, the assets should be straightway transferred to the concerned Zonal Railway at the value of the capital assets in their Block Account. Thereafter, the Zonal Railway concerned would own the assets and provide for these maintenance, depreciation etc in the case of assets created by Railways themselves.

The decision (April 2006) of the Ministry of Railways to transfer projects to Railways immediately after completion was not in line with the original concept of Build, Operate and Transfer (BOT) under which RVNL was to own the projects until these were transferred back to Railways on mutually agreed terms.

Records revealed that though 19 projects had been completed and commissioned, the formal transfer of projects to the concerned Zonal Railways was yet to take place as it would involved reduction of the capital base of RVNL (The completed projects hadmainly been financed through the equity of RVNL). Pending finalisation of the methodology for accounting of the completed projects in the Accounts of RVNL, the value of capital assets of projects commissioned and physically transferred to Zonal Railways was yet to be included in the Block Account of Railways and wasbeing reflected as work in progress in the Balance Sheet of RVNL.

Despite the existence of RVNL since 2003, Ministry of Railways is yet to finalise the modalities for effecting transfer of completed projects from RVNL.

Recommendation

Ministry of Railways should finalise on priority the modalities for effecting transfer of completed projects from RVNL and for incorporating the same in the Block Account of Railways.

7.2.9 Other deficiencies

An analysis of the arrangement of Ministry of Railways with RVNL indicated the following deficiencies.

7.2.9.1 Non realisation of inspection charges

As per Railway Board's letter of September 1992, inspection charges at the rate of two *per cent* of the total cost of sleepers including cost of inserts was to be levied on the concrete sleeper manufacturers towards inspection charges. The inspection charges were to be recovered from the sleeper manufacturers by RVNL and paid to the Ministry of Railways.

In North Western Railway, RVNL had deposited only a sum of ₹ 0.21 crore in May 2007 against a demand of ₹ 1.56 crore by the **Zone**. The remaining ₹1.35 crore was yet to be realised.

7.2.9.2 Non remittance of cost of tamping

The Railway Administration carried out tamping work costing ₹ 1.72 crore and ₹0.54 crore in the SMR-BLDI and FL-GLTA section respectively. Although the Railway Administration had raised the debit in March 2010, RVNL had not yet remitted the aforementioned dues of ₹ 2.25 crore to the Railway Administration.

7.2.9.3 Charges recoverable from Staff occupying railway quarters

While reviewing the records of staff on deputation to RVNL and in occupation of railway quarters, it was noticed that rent, House Rent Allowance and electricity charges were not recovered as per rules, and paid to Railways resulting in these short realization. On NWR and WCR alone, an amount of ₹0.06 crore remained to be realised from RVNL during the period 2008-09. On SCR and SECR, the monitoring mechanism was weak as the requisite details for recovering these costs in respect of the staff on deputation to RVNL were not being maintained properly in these Zones.

7.2.9.4 Non recovery of Foreign Service Contribution

During the review of records, it was observed that Foreign Service Contributions (Pension Contribution and Leave Salary Contribution) were not recovered in respect of the railway employees on deputation to RVNL. In NWR, a sum of ₹0.18 crore worked out as Foreign Service Contribution dues were not recovered from RVNL. On WCR, an amount of Rs 0.08 crore wasoutstanding for recovery (up to March 2010) towards pension and leave salary contribution in respect of staff posted on deputation in RVNL. Records pertaining to the Foreign Service Contribution in respect of the staff posted on deputation to RVNL were not maintained properly in SCR and SECR.

7.2.10 Conclusion

RVNL was established as a Special Purpose Vehicle primarily to expedite the augmentation of rail infrastructure envisaged in the NRVY, which was conceived as a non budgetary investment initiative. The basic objectives of setting up RVNL were to generate additional resources by leveraging market borrowings and to quicken the pace of augmentation by adopting various models for implementation of the projects including formation of project specific Special Purpose Vehicles. Audit observed that RVNL, even after seven years since its inception, continued to be largely dependent on the resources of the Railways. Failure of RVNL in generating resources necessitated the diversion of Railway's scarce resources to projects assigned to RVNL at the cost of other important projects of Indian Railways. The resource mobilisation from external sources was inadequate. The performance of RVNL on project execution and management was inefficient as it was plagued by delays and cost overruns. The core objective of fast tracking the augmentation of rail infrastructure had, therefore, not been achieved.

The matter was brought to the notice of Railway Board (September 2010); their reply had not received (January 2011).

(ARVIND K. AWASTHI)

New Delhi **Deputy Comptroller and Auditor General**

Dated:

Countersigned

(VINOD RAI)

New Delhi **Comptroller and Auditor General of India**

Dated: